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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000982

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TAGS: [ECON](#) [EAGR](#) [PGOV](#) [EINV](#) [IZ](#) [IR](#)
SUBJECT: IRANIAN TEA PARTY: A FOREIGN INVESTOR'S
EXPERIENCES IN THE IRANIAN WONDERLAND

Classified By: PolEcon Counselor Robert Garverick, Reasons 1.4 (b) and (d)

¶1. (C/NOFORN) A leading Azerbaijan-based businessman with Iranian roots described his experiences attempting to invest in the Iranian tea sector in 2004-2006. Invited in by Iranian officials, he described how two of his ventures were torpedoed by Teheran authorities after they were underway, and related the lessons he ultimately learned about the destruction of the Iranian tea industry due to greed, corruption, and politics. During his two-year venture he observed massive smuggling, and its apparent use by the Iranian regime as a tool for controlling restive border areas and crony enrichment; a changing commercial distribution system that is weakening bazaaris; and corrosive hypocrisy, dishonesty, and cutthroat practices that he alleged typify many Iranian agro-businessmen, distributors, and senior officials. He concluded his devastating dissection of part of the Iranian commercial and economic scene by vowing that, "no matter what happens there in future, I will never invest in Iran again." Omar's story is interesting in its own right, and potentially very revealing as a microcosm of aspects of the "real world" economic and commercial picture in Iran. End Summary.

¶2. (C/NOFORN) Omar, a naturalized Azerbaijan citizen of Iranian Kurdish ethnicity (strictly protect), confided to Iran Watcher his Alice-in-Wonderland-like experience attempting to establish a tea packaging plant and a "world class" tea processing factory and laboratory in Northern Iran. Omar's company, a large agricultural and energy conglomerate headed by his Dubai-based father, has operations in over 50 countries around the world, including significant sugar and tea production operations in Azerbaijan and overseas. Omar got his start running their tea production and marketing subsidiary, has developed tea operations in several countries, and is a certified tea taster.

Pilot Project in Tabriz...

¶3. (C/NOFORN) Omar related that from 2004-2006 he made many trips to Iran in connection with commercial ventures involving the Iranian tea industry. He related that these efforts started after he was initially contacted in Baku by the then-mayor of Tabriz ("a lovely man"), a Khatami ally, about establishing a tea packaging plant in Tabriz as a possible first step in larger potential business investments by his company in that region (Note: Tabriz is the capital of province and the unofficial cultural and business capital of Iranian Azerbaijan. End Note.)

Blown Out of the Water by Teheran

¶4. (C/NOFORN) After a visit to Tabriz Omar agreed to establish as an initial project a modest tea packaging factory that would put into teabags tea being grown across the border in Azerbaijan, with planned follow on sale in the domestic Iranian market as well as re-export abroad. Omar related that a new factory with modern equipment was built and a large inauguration ceremony planned, when two days before the opening, "without any prior warning," the Iranian government announced a total ban on the import of tea to Iran, thereby apparently scotching the whole project. Omar said that the official reason for the ban was trumpeted bombastically in Teheran as a "patriotic" measure to support Iranian domestic tea production.

¶5. (C/NOFORN) Omar said that the Tabriz authorities were as "shocked as I was" about the ban, and blamed it on "politics" and the influence of "seven or eight" ultra-conservative tea factory owners with connections to the Basiji organization, whom Omar claimed completely monopolize Iranian tea production. In the wake of the Tabriz fiasco, Omar developed a plan for blending Iranian tea with high quality Sri Lanka tea and marketing the product internationally through his firm's large distribution network. He added that his company also planned to fund a "world-class" tea laboratory and agro-research center for the Iranians as part of this project.

Iranian Tea Sector - Destroyed by Greedy Basijis?

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¶6. (C/NOFORN) Omar said that, with substantial official encouragement, he undertook several investigative and lobbying efforts within Iran, traveling frequently to Iran tea production centers and lobbying key figures in the Teheran government. As part of this effort, participated in several meetings with the tea factory cabal, whom he described as universally "bearded, dirty, and hideous." According to Omar, his research revealed that over time the corrosive corruption of this clique and its Teheran allies has devastated the domestic Iranian tea industry, which he claimed formerly employed several hundred thousand farmers, mainly centered in the Lahijan area of Gilan province. He alleged that the clique used its conservative connections during the Khomeini period to force the government to buy most of their tea production at the near-market price of approximately \$2.50 per ton regardless of quality, then pressured local farmers to supply them with bulk production including non-tea fillers to optimize their profits.

¶7. (C/NOFORN) According to Omar, this practice rapidly led to the collapse of domestic demand for Iranian tea (which he described as "undrinkable" in terms of the high standards of Iranians), and the amassing of unsellable "tea mountains" in government warehouses, which are periodically burnt (he personally witnessed one of these massive warehouse tea burnings). He claimed that by 2005, no more than 20 percent of tea production was ever sold and that at a knockdown price of approximately twenty-five cents a ton. He said that independent tea farmers found themselves unable to market their product, and over time even those servicing the clique had their income slashed by the greedy clique members, leading many of them to seek other employment and/or sell their property to land speculators, most of whom he claimed were also members of the conservative Islamic faction.

Hypocrisy in Teheran

¶8. (C/NOFORN) Omar then described a Teheran meeting with the head of Iranian Tea Board and the Deputy Minister of Agriculture, during which he lobbied for a loosening of the tea import ban for the purposes of his tea blending project.

He related that when he observed that Iranian tea by itself is unmarketable, the Deputy Minister launched into a pompous lecture about the need to support the "glorious ancient Iranian tea industry." Omar said that he responded by asking the Ministry tea server to provide the tea box for the tea they were currently drinking. The tea was imported. According to Omar, "without batting an eye," the Deputy Minister observed that "you are a clever man - I'm sure you will quickly find your own solution to your tea (import) problem." He then suggested that Omar visit the Teheran bazaar.

"Welfare - Iranian Style"

¶9. (C/NOFORN) Taking the hint, the (self-professed) "naive" Omar went to the bazaar, where he saw large stocks of illegal, imported tea openly for sale at reasonable prices, and had no problem in obtaining purchase receipts from local vendors, who told him that much of the illegal tea was smuggled in large shipments via Iraqi Kurdistan. The intrigued Omar then recounted how he visited the Iran-Iraqi Western border area, where he witnessed "massive caravans of trucks carrying tea and other products and dozens of young boys with refrigerators on their backs" proceeding unhindered over a makeshift road no more than 200 meters from an official border post. "For the first time I realized what was really going on (with the tea ban)," he said, "it was welfare Iranian-style!"

Paying Off Several Birds with One Stone

¶10. (C/NOFORN) He explained that the border region is extremely poor with little government investment or services, and populated primarily by potentially restive Sunni Kurds. "They have no economic alternatives of their own there except smuggling," he asserted, "so the government is allowing them to have this 'industry.'" He added that artificial import bans serve several purposes: payoffs to politically-connected domestic cliques, such as the tea cabal; provision of income

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to depressed border areas; and national security leverage based on the principle "what we give we can take away." He elaborated on the latter point by observing that troublesome tribes can be deprived of access to lucrative smuggling routes, or dealt with indirectly by temporarily denying other tribes access to such routes, who then pressure the troublemaker.

Contract Problems, Changing Commercial Distribution Picture

¶11. (C/NOFORN) Omar then related that he set up his tea factory in the Tabriz area and began buying imported tea from merchants in Teheran and blending it with some domestic tea. He said that a complicating factor was that "with the exception of five or six big businessmen and their companies, "no one respects contractual obligations in Iran unless you have the right connections to compel them." He added that even the few reliable businessmen could only be counted on to honor contracts so long as one does business with them - "if they lose your business, they often won't pay or deliver what they owe you," he claimed. He added that the emergence of large distribution companies with national networks is increasingly diminishing the commercial position/leverage of the traditional bazaari merchants. He explained that new companies "with hundreds of trucks" are bypassing traditional bazaari-dominated consumer supply networks and delivering goods directly to neighborhood shops and large food stores.

Conclusion: All Business is Politics

¶12. (C/NOFORN) Resuming his story, Omar said that about six

months after he began his blending business he was visited by Iranian intelligence officers who accused him of breaking Iranian law by smuggling illegal tea (despite his Teheran purchase receipts) and demanding that he shut down his operation. Omar claimed to be taken aback by this, as he claimed that some Iranian businessmen had established similar factories and were operating without problems. Omar concluded that internal Iranian politics were as much responsible for his problems as corruption and government inefficiency.

¶13. (C/NOFORN) Noting that he had invested in Iran under the sponsorship of local politicians (such as the then-Mayor of Tabriz) close to then-President Khatami, Omar opined that he apparently became a target of local conservatives and others opposed with that faction, and said that he was warned that the (anti-Khatami) intelligence were preparing to accuse him of doing illegal his business in order to discredit the local moderates who initially assisted him. For Omar, this incident was the straw that broke the camel's back: he quickly departed Iran and has not returned since. He also immediately closed down his business, removing some machinery to Azerbaijan.

"Never Again"

¶14. (C/NOFORN) Omar called his two-year effort in Iran "painful but educational." No matter what happens there in future, "I'm never investing in Iran again," he asserted. Note and Comment: While the Iranian government partially lifted its tea import ban in 2006, recent FAO and trade press reports suggest that tea smuggling into Iran remains massive, and that Iranian factory owners are still receiving state subsidies, despite the fact that most domestic tea production continues to end up in government warehouses before being burnt.

¶15. (C/NOFORN) In addition to shedding light on tea and agribusiness issues, Omar's story provides potential food for thought on many important issues relating to how Iran's economy, government, and politics may "really" work. Omar is a major, internationally active Baku business figure, and we attach significant credibility to his comments as a reflection of his personal impressions and experiences. Post Iran watcher will continue efforts to assemble a mosaic of such insights from knowledgeable and experienced sources here. End Note and Comment.
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